

# Business Report 2018

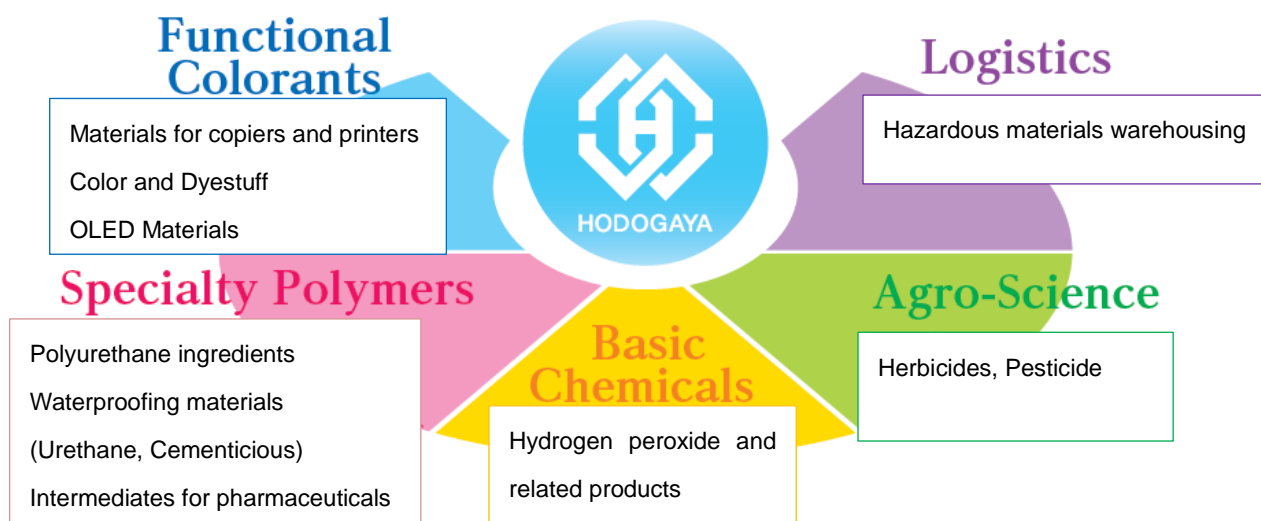
April 1, 2018 - March 31, 2019

## Hodogaya Chemical Group: Management Philosophy

Through constant innovation of chemical technology, we will provide high-quality products and services throughout the world and contribute to the creation of an environmentally conscious society.

## Business Overview

One of the things that make the Hodogaya Chemical group unique is that in each sector, whether it is Functional Colorants, Specialty Polymers, Basic Chemicals, Agro-Science, or Logistics, etc., there is a highly specialized group company. With Research & Development, Manufacturing, and Sales working together in a Trilateral Business Plan, we are able to meet the various needs of our customers quickly, and with products and service of the highest quality.



## **Financial Results**

With regard to the global economic trends in FY2018, the United States economy remained strong as a result of improvements in employment and income environment.

In Europe, despite steady consumer spending as a result of improvements in employment environment, there were trends of economic slowdown due to the impacts such as drop in automobile production caused by delay in complying with the new fuel efficiency standards.

The Chinese economy slowed down with decrease in infrastructure investments and sluggish export against the backdrop of U.S.-China trade friction.

As for Japan, our economy slowed down due to sluggish export to China affected by U.S.-China trade friction and higher raw material and fuel prices.

Within this economic climate, our net sales in FY2018 decreased by 1,144 million yen (down 3.0%) year-over-year to 37,548 million yen, due to declines in each segment except the specialty polymers segment.

In terms of profit and loss, operating profit decreased by 874 million yen (down 22.4%) year-over-year to 3,028 million yen due to a decrease in net sales, an increase in raw fuel costs and other factors. Ordinary profit came to 3,104 million yen, a decrease of 1,065 million yen (down 25.6%) year-over-year, due to a decrease in operating profit, a decrease in foreign exchange gains and other factors, and profit attributable to owners of parent decreased by 978 million yen (down 34.2%) year-over-year to 1,883 million yen.

### **FY 2018: Consolidated Results (Millions of Yen)**

	FY 2018 Results	Changes Gains/Losses
Net sales	37,548	-3.0%
Operating profit	3,028	-22.4%
Ordinary profit	3,104	-25.6%
Profit attributable to owners of parent	1,883	-34.2%

## Overview of our Mid-Term Management Plan

We embarked on “HONKI 2020” (Hodogaya as **O**nly one, **N**umber one with our **K**ey technology and **I**magination), a 6-year management plan that will be completed in FY 2020.

### Our Group’s Vision for 2020

A corporation that steadily supplies “Only One/Number One” materials in the global and niche markets.



Each business is classified into one of the following four categories, and we focus on strengthening core businesses while developing and cultivating the businesses of the future.

**Core Businesses:** Businesses that are already generating positive results

**Growth Businesses:** Expected to generate positive results in FY 2015~2016

**Cultivation Businesses:** Expected to generate positive results in FY 2017~2018

**New Business Creation:** Businesses that are expected to generate positive results in FY 2019 and beyond

With “HONKI 2020”, we are implementing the following measures:

- (1) **Regaining Competitive Strength and Securing a Stable Revenue Base**
- (2) **Establishing a Foundation for the Next Generation**
- (3) **Expanding our Scope of Business by Creating New Added Value**
- (4) **Strengthening Global Operation**
- (5) **Cultivating Personnel for a Diversifying Society**
- (6) **Enhancing our Commitment to CSR (Corporate Social Responsibility)**

## (1) Regaining Competitive Strength and Securing a Stable Revenue Base

### ① Core Businesses: Businesses that are already generating positive results

[Basic Approach] Cutting costs, improving production capacity, developing new applications, expanding global business.

[Main Businesses]

[Functional Colorants Segment] Existing charge control agents (CCA), aluminum dyes, stationery dyes, hair coloring dyes.

[Functional Polymers Segment] Existing polyol materials (bio-polyols, special polyols), phosgene derivatives, tire adhesives, cementitious and urethane waterproofing materials.

[Basic Chemicals Segment] Hydrogen peroxide, sodium percarbonate.

[Agro-Science Segment] Herbicide granules, pesticides, contract manufacturing.

[Logistics Segment] Logistics, warehousing.

## (2) Establishing a Foundation for the Next Generation

### ② Growth Businesses: Expected to generate positive results in FY 2015~2016

[Basic Approach] Expand sales and market share in growing markets, strategic investment.

[Main Businesses]

[Functional Colorants Segment] OLED materials, environmentally-friendly charge control agents(CCA).

[Basic Chemicals Segment] Peracetic acid, hydrogen peroxide for veterinary pharmaceuticals.

[Agro-Science Segment] Liquid herbicides, mega-solar grounds management.

## (3) Expanding our Scope of Business by Creating New Added Value

### ③ Cultivation Businesses: Expected to generate positive results in FY 2017~2018

[Basic Approach] Creation of new products, expansion of sales and market share.

[Main Businesses]

[Functional Colorants Segment] Dyes for color filters, CCA for color toner.

[Functional Polymers Segment] New polyol materials.

[Agro-Science Segment] Peroxides for agricultural applications.

### ④ New Business Creation: Businesses that are expected to generate positive results in FY 2019 and beyond

[Basic Approach]

- Striving to achieve 5,000 million yen in new product sales in FY 2020.
- Using the strengths in organic synthesis and manufacturing technologies that we have cultivated over the course of our long history as a foundation for our capabilities in “High Purity Technologies”, “Development of Functional Materials”, and “Evaluation of Functional Materials”, we will endeavor to contribute to a world of abundance.

#### **(4) Strengthening Global Operation**

[Basic Approach] Promotion of business activities in global and niche markets on the basis of a firm understanding of customer needs.

#### **(5) Cultivating Personnel for a Diversifying Society**

[Basic Approach] Energizing the Group by training employees to “think, investigate, and act”.

#### **(6) Enhancing our Commitment to CSR (Corporate Social Responsibility)**

[Basic Approach] Maintaining and deepening the trust held in us by all stakeholders, and contributing to social development.

<b>Business Objectives</b>	<b>(Millions of Yen)</b>
	FY 2020
Net sales	50,000
Operating profit	5,000
Operating margin	10.0%

#### **Prospects for FY 2019**

	<b>(Millions of Yen)</b>
	FY 2019
Net sales	38,000
Operating profit	2,300
Ordinary profit	2,300
Profit attributable to owners of parent	1,400

## **Overview By Business Segment**

### **Functional Colorants**

The OLED Materials business saw an increase in income due to an increase in demand in the area of displays. The Dyes and Colors business maintained the same level as the previous fiscal year with the continued strong performance of aluminum coloring dyes for digital home appliances. In contrast, continued sluggish demand for materials for printers led to a large decrease in income in the Imaging Materials business.

As a result, net sales in this segment came to 10,912 million yen, with 966 million yen in operating profit.

OLED Materials	Hole Transport Materials and other principal components of organic EL displays and lights. Light Emitting Materials.
Imaging Materials	CCA (Charge Control Agents), a critical component of toner. Materials for the OPC (Organic Photo Conductors) drums that are central to copiers and laser printers. Dyes for ink jet printers
Color and Dyestuff	Dyes for coloring aluminum, high-end stationery products and various inks. Hair Coloring Agents Colorants for processed foods and cosmetics, etc.

### **Specialty Polymers**

The Construction Materials business maintained the same level as the previous fiscal year with the strong performance in the sales business of urethane materials. However, the decreased demand in the area of intermediates for pharmaceuticals due to intensified competition led to a decrease in income of the Specialty Chemicals business. In contrast, increased demand for urethane materials and tire materials led to an increase of income in the Resin Materials business.

As a result, net sales in this segment came to 12,327 million yen, with 587 million yen in operating profit.

Functional Polymers	Materials for clothing, automobiles, industrial components, leisure products, etc. Adhesive Release Agents
Construction Materials	Urethane waterproofing materials (for building and parking structure roofs, etc.) Cementitious waterproofing materials (for sewage facilities, water treatment plants, underground pits, etc.)

Specialty Chemicals	Intermediates for pharmaceuticals, agricultural chemicals, polymers, electronics materials, etc.
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### Basic Chemicals

Despite the decreased demand for paper pulp and environmental areas, the performance of hydrogen peroxide maintained the same level as the previous fiscal year thanks to increased demand for industrial chemicals. In addition, derivatives of hydrogen peroxide had a large decrease in income resulting from the decreased demand for exports.

As a result, net sales in this segment came to 6,799 million yen, with 545 million yen in operating profit.

Basic Chemicals (Hydrogen peroxide)	Bleaching agent for paper pulp, fibers and clothing, etc. Pollution treatment and other forms of environmental cleanup. Parasiticides for Farmed Fish
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### Agro-Science

Herbicides for home gardening continued to grow steadily resulting in the same level as the previous fiscal year. In contrast, herbicides for golf courses and cropland saw a large decrease in income due to inventory adjustment on the customer side.

As a result, net sales in this segment came to 5,288 million yen, with 409 million yen in operating profit.

Agro-science	Herbicides, pesticides and growth control agents for crop fields, golf courses, green areas, etc.
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### Logistics

Decreased volume in export transactions and storage in warehouse led to a large decrease in income.

As a result, net sales in this segment came to 2,035 million yen, with 487 million yen in operating profit.

Logistics	Hazardous materials warehousing
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## TOPICS

### Cooperating in Big Tree Pageant

The Big Tree Pageant Festa in Koriyama that illuminates the front of Koriyama Station has expanded the area from the West Exit to include the East Exit of the station on the occasion of the 13th festival. The Koriyama Plant cooperated by using its fences that extend from the East Exit



of Koriyama Station to the main gate of the Plant. We designed a motif between the curtain of lights installed, and offered a photo-shooting spot for the residents to enjoy.

### Issuance of integrated report in English version

We have issued “integrated reports” since FY2017 in order for all stakeholders to have better understanding on our group’s business activities and CSR activities. Furthermore, we started issuing English versions in addition to the existing Japanese versions in FY2018 to ensure wider availability for foreign customers and investors. We will continue to send information in a global manner.





**CONSOLIDATED FINANCIAL STATEMENT**  
**CONSOLIDATED BALANCE SHEETS**

MILLIONS OF YEN

	2018	2019
	Mar. 31	Mar. 31
<b>ASSETS</b>		
<b>Total Current Assets</b>	25,047	27,344
<b>Total non-current assets</b>	29,689	29,795
Total property, plant and equipment	20,010	20,778
Total intangible assets	175	151
Total investments and other assets	9,503	8,865
<b>Total Assets</b>	54,737	57,140
<b>LIABILITIES</b>		
Total current liabilities	11,426	11,763
Total non-current liabilities	7,441	8,517
<b>Total Liabilities</b>	18,868	20,280
<b>Total shareholders' equity</b>	26,637	28,129
Capital stock	11,196	11,196
Capital surplus	8,716	8,716
Retained earnings	8,444	9,933
Treasury shares	(1,719)	(1,716)
Total accumulated other comprehensive income	6,632	5,846
Non-controlling interests	2,599	2,883
<b>Total net assets</b>	35,869	36,860
<b>Total liabilities and net assets</b>	54,737	57,140

## CONSOLIDATED STATEMENTS OF INCOME

MILLIONS OF YEN

	FY 2018	FY 2019
	Apr.1-Mar.31	Apr.1-Mar.31
<b>Net Sales</b>	38,693	37,548
<b>Cost of sales</b>	24,787	24,663
<b>Total selling, general and administrative expenses</b>	10,001	9,856
<b>Operating profit</b>	3,903	3,028
Total non-operating income	733	458
Total non-operating expenses	467	382
<b>Ordinary profit</b>	4,169	3,104
Total extraordinary income	13	7
Total extraordinary losses	452	138
<b>Profit before income taxes</b>	3,731	2,973
<b>Total income taxes</b>	176	653
<b>Profit</b>	3,555	2,319
<b>Profit attributable to non-controlling interests</b>	692	436
<b>Profit attributable to owners of parent</b>	2,862	1,883

**STOCK**(AS of March 31, 2019)**AUTHORIZED NUMBER OF SHARES**

20,000,000

**NUMBER OF COMMON SHARES ISSUED**

8,413,726

**NUMBER OF SHAREHOLDERS**

8,383

**MAIN SHAREHOLDERS (TOP 10 COMPANIES)**

<b>Shareholder</b>	<b>Number of Shares Held</b>	<b>Percentage of Shares Held (%)</b>
Tosoh Corporation	700,000	8.9
Mizuho Bank, Ltd.	298,704	3.8
The Master Trust Bank of Japan, Ltd. (Trust Account)	259,400	3.3
The Norinchukin Bank	227,430	2.9
Japan Trustee Services Bank, Ltd. (Trust Account)	208,700	2.6
Meiji Yasuda Life Insurance Company	164,535	2.1
The Toho Bank, Ltd.	148,399	1.9
Mitsui Sumitomo Insurance Co., Ltd.	141,400	1.8
J.P. MORGAN BANK LUXEMBOURG S.A. 1300000	139,451	1.8
Japan Trustee Services Bank, Ltd. (Trust Account 5)	133,100	1.7